

Revenues

Against a backdrop of a lingering local recession and stagnant state and local revenues, the Legislature enacted several significant revenue measures in the 2003 session to bolster the state general fund, boost transportation resources, and provide local governments with additional financial tools. The state general fund revenue for the 2003-05 biennium was forecasted in March 2003 to be \$22.4 billion, only 6 percent above the 2001-03 collections, and about \$2.7 billion less than the estimated level required to maintain current service levels. While the Legislature ultimately relied mainly on program cuts and transfers from other funds to balance the 2003-05 general fund budget, legislation was adopted that increased general revenues a total of \$236 million. In addition, legislation was enacted to increase the state transportation revenues by \$412 million and to provide local governments with additional general sales and use tax authority and with more flexible property tax authority.

The Legislature also took significant steps to provide relief to certain sectors of the economy and to simplify tax administration. Unprecedented tax incentive packages were passed to support the state semiconductor and aerospace industries. In addition, measures were enacted to provide uniformity and consistency among municipal business tax codes and to make changes to the state sales and use tax codes to bring the state into conformance with the multi-state Streamlined Sales Tax Project agreement.

General Fund-State Increase Measures

The Legislature enacted three pieces of legislation that increase general fund revenues significantly. The biggest, Chapter 13, Laws of 2003, 1st sp.s. (EHB 2269), is an omnibus revenue act that adds over \$100 million to the state general fund. The legislation makes a number of administrative changes, including advancing the date for the payment of most excise taxes, increasing certain penalties, and shortening the period that abandoned property may be held by third parties. To increase compliance, promoters of special events must verify that vendors at special events are registered with the Department of Revenue. In addition, the legislation closes a loophole with respect to liability for unpaid excise taxes after a business or its assets are sold.

Chapter 16, Laws of 2003, 1st sp.s. (E2SSB 5341), also increases state general fund revenues by requiring a per-patient quality maintenance fee of most nursing homes. This legislation increases state general fund revenues by \$78 million.

The omnibus appropriations act, Chapter 25, Laws of 2003, 1st sp.s., Partial Veto (ESSB 5404), includes provisions that increase state general fund revenues by almost \$52 million. The Liquor Control Board is directed to relocate some stores and open five additional stores and to increase the retail liquor mark-up by 42 cents per liter. In addition, the Department of Revenue is given additional resources to improve the enforcement of existing revenue collections.

Transportation Revenues

The Legislature enacted two significant pieces of transportation legislation to boost state revenues and local revenue authority. The first, Chapter 361, Laws of 2003, Partial Veto (ESHB 2231), imposes several state transportation financing measures. The principal components that raise revenue are an increase in fuel taxes of 5 cents per gallon; a 15 percent increase to gross weight fees for trucks over 10,000 pounds; and an additional 0.3 percent sales tax on motor vehicles. The second, Chapter 350, Laws of 2003 (ESSB 5247), authorizes a regional transportation investment district to impose the local option fuel tax of 10 percent of the state fuel tax rate, subject to voter approval.

Local Government Revenues

Action was taken to increase local government revenue authority and flexibility in the 2003 sessions. Chapter 24, Laws of 2003, 1st sp.s., Partial Veto (2ESSB 5659), authorizes counties, with voter approval, to impose additional general sales and use taxes of up to 0.3 percent. Any new revenues must be shared with the cities within the

county. In addition, cities and counties may submit a proposition to voters to allow increases in regular property tax levies in excess of 1 percent annually for a block of time of up to six years. While the bill that was enacted also included modifications to the Growth Management Act, the Governor vetoed those provisions.

Industry-Specific Incentive Packages

Two significant tax incentive packages were enacted to support the semiconductor and aerospace industries. Chapter 149, Laws of 2003 (SB 5725), creates a number of business and occupation (B&O), sales and use, and property tax preferences for the manufacture of semiconductor materials. The B&O tax preferences include an exemption for the manufacture of semiconductor microchips, a reduction in the tax rate for the manufacture of other semiconductor materials, and a tax credit of \$3,000 for each employment position in semiconductor manufacturing production. Sales and use tax incentives include exemptions for the acquisition of gases and chemicals used in semiconductor manufacturing and for the construction of new semiconductor manufacturing buildings. Machinery and equipment used in manufacturing semiconductor materials are exempt from property taxation. All incentives in the act are contingent upon the signing of a contract for an investment of at least \$1 billion in a semiconductor microchip manufacturing facility in Washington and are effective for 8 to 14 years.

Chapter 1, Laws of 2003, 2nd sp.s. (HB 2294), provides a number of tax preferences to the Washington aerospace industry through July 1, 2024, contingent upon the siting of the production of a superefficient commercial airplane in Washington State. The most significant provision is a 40 percent reduction in the B&O tax rate for the manufacture of commercial airplanes and associated components. Other B&O tax incentives include credits against tax liability for computer hardware and software equipment acquired previously by a commercial airplane manufacturer, for certain research and development (R&D) expenditures, and for property taxes paid on new buildings and other property acquired after enactment. Sales and use tax exemptions are provided for the construction of buildings used for the manufacture of superefficient airplanes and for the acquisition of computer hardware and software used in R&D for commercial airplane and associated components. If the production site for a superefficient airplane is located at port district facilities, the lessee receives exemptions from the leasehold excise tax and, in lieu of the B&O credit for property taxes paid, from property tax on all personal property used in the manufacture of the airplanes.

State and Local Tax Simplification

In Chapter 79, Laws of 2003 (EHB 2030) and Chapter 168, Laws of 2003 (SB 5783), the Legislature took steps to simplify local and state tax codes. The former requires cities, working through the Association of Washington Cities, to adopt a model business tax ordinance to address issues of uniformity between municipal codes and to prevent multiple taxation of business income; cities with business tax ordinances are required to adopt the mandatory provisions of the model ordinance by 2004. In addition, cities with business taxes are required by 2008 to allow businesses to apportion taxable income according to location of business activity. In SB 5783, the Legislature adopted definitional and other administrative changes to the sales and use tax code, conforming the state code to the terms of the multi-state Streamlined Sales and Use Tax Agreement that has been developed to simplify and improve state and local sales taxes.

2003 Revenue Legislation Changes
General Fund-State and Total Revenue Impacts
(Dollars in Thousands)

Legislation		General Fund 2003-05	Other Funds 2003-05	Total State Revenue Impact 2003-05
EHB 1037	Litter Tax/Food & Beverages	0	-775	-775
SHB 1069	Delinquent Property Taxes	0	0	0
HB 1073	Property Tax Collection	0	0	0
SHB 1075	Forest Tax Statutes	0	0	0
SHB 1081	Mortgage Lending Fraud	0	1,000	1,000
HB 1126	Seed Testing Fees	0	938	938
SHB 1219	Securities Violations	-44	193	149
2SHB 1240	Biodiesel & Alcohol Fuel	0	0	0
2SHB 1241	Biodiesel & Alcohol Fuel	-50	0	-50
SHB 1278	Listing Property/Tax Purpose	0	0	0
SHB 1455	Money Transmission & Exchange	0	884	884
HB 1591	Excise Tax Interest	614	0	614
SHB 1722	Internet Transaction Taxes	-20	0	-20
2SHB 1725	Catch Record Cards	0	307	307
SHB 1813	Employment/Disabled Persons	0	62	62
HB 1858	Chemical Dependency Services	-64	0	-64
2SHB 1887	Commercial Fisheries	0	3,205	3,205
HB 1905	Property Tax Exemption	0	0	0
SHB 1930	Tobacco Settlement	0	1,500	1,500
SHB 1943	Counterfeit Cigarettes	8	0	8
EHB 1977	Use Tax	-60,000	0	-60,000
HB 2001	Nonprofit Property Tax Exemption	0	0	0
SHB 2027	Cigarettes	99	227	326
SHB 2038	Tobacco Escrow Refunds	0	2,000	2,000
SHB 2040	Delinquent Insurer/Taxpayer	40	0	40
EHB 2146	Wood Biomass Fuel	0	0	0
SHB 2192	Parimutuel Taxation	0	181	181
EHB 2269	Increased Revenue Act	100,553	0	100,553
HB 2294	Aerospace Industry	-25,302	0	-25,302
SHJM 4004	Fed Income Tax Deduction	0	0	0
SSB 5051	Strong Beer	0	0	0
ESSB 5071	Aviation Repair B&O Tax	-1,272	0	-1,272
E2SSB 5341	Nursing Facility Fee	78,190	0	78,190
SB 5363	Economic Revitalization Board	0	0	0
SB 5725	Semiconductor Cluster	0	0	0
SSB 5737	Abandoned Property	0	0	0
SB 5783	Sales and Use Tax Agreement	4,218	0	4,218
SSB 5933	Cigarette Tax Contracts	0	0	0
ESSB 6023	Court Assessments/Penalties	0	16,656	16,656
ESSB 6058	State Property Taxes	188,316	-188,316	0
SJM 8003	Fed Income Tax Deduction	0	0	0

2003 Revenue Legislation Changes
General Fund-State and Total Revenue Impacts
(Dollars in Thousands)

Legislation		General Fund 2003-05	Other Funds 2003-05	Total State Revenue Impact 2003-05
Transportation Legislation				
ESHB 1853	Passenger Ferry Service	0	0	0
HB 2065	License Plate Technology	0	2,156	2,156
ESHB 2228	Commute Trip Reduction	0	-6,000	-6,000
ESHB 2231	Trans Financing Alternatives	0	411,742	411,742
SSB 5190	Fuel Tax Evasion	0	87	87
ESSB 5247	Local Option Fuel Tax	0	0	0
ESB 5450	Electric Vehicles	0	67	67
SSB 5600	Returned License Plates	0	5	5
SB 6056	Pilot & Aircraft Fees	0	1,119	1,119
Local Revenue Legislation				
ESHB 1462	Intellectual Property	0	0	0
EHB 2030	Municipal B&O Tax	0	0	0
ESHB 2088	Storm Water Rates & Charges	0	0	0
2ESSB 5659	Local Government Funding	0	0	0
ESSB 6026	Convention & Tourism	0	0	0
Budget Driven Revenue				
ESSB 5404	Liquor Store Openings & Relocations; New DOR Auditors	51,931	0	51,931

Revenue Legislation

Exempting from the Litter Tax Retail Sales of Food and Beverages that are Consumed Indoors on the Seller's Premises – No General Fund-State Revenue Impact

Chapter 120, Laws of 2003 (EHB 1037), provides an exemption from litter tax on retail sales of food and beverages that are consumed indoors on the seller's premises. The litter tax applies to the value of certain categories of wholesale and retail products at a rate of 0.015 percent. This legislation does not impact the state general fund but reduces revenue to the Waste Reduction, Recycling, and Litter Account by \$775,000.

Authorizing Additional Waivers on Interest and Penalties for Delinquent Property Taxes – No General Fund-State Revenue Impact

Chapter 12, Laws of 2003 (SHB 1069), waives interest and penalties on late property taxes if the delinquency of payment was the result of untimely receipt of the tax bill due to error by the county. This legislation does not impact the state general fund but may reduce local revenues.

Modifying the Collection of Property Taxes on Land Subleased for Residential and Recreational Purposes – No General Fund-State Revenue Impact

Chapter 169, Laws of 2003 (HB 1073), allows foreclosures against subleases in addition to improvements on the lots when property taxes are delinquent on lots that are private leases of publicly-owned land. This legislation applies to lease arrangements at Lake Cushman only and has no revenue impact.

Clarifying 2001 Statutory Changes Made to Forest Tax Statutes – No General Fund-State Revenue Impact

Chapter 170, Laws of 2003 (SHB 1075), clarifies that the date on a death certificate will be used to implement an exception to payment of back property taxes related to the death of an owner. In addition, the legislation restores language to the timber tax law that limits applicable rules to just those rules adopted under Title 76 RCW (Forests and Forest Products). This legislation has no revenue impact.

Providing Funds to Deter, Investigate, and Prosecute Real Estate Fraud Crimes – No General Fund-State Revenue Impact

Chapter 289, Laws of 2003 (SHB 1081), creates an account to be administered by the Department of Financial Institutions and the State Treasurer for the purpose of assisting state and local law enforcement authorities in deterring, investigating, and prosecuting fraud on the part of mortgage lenders. County auditors are required to collect money for the new account by imposing a \$1 surcharge upon the recording of certain deeds of trust. This legislation does not impact the state general fund but increases revenues to a new account, the Mortgage Fraud Prosecution Account, by \$1 million.

Allowing Seed Testing Fees to Increase in Excess of the Fiscal Growth Factor Set Out in Chapter 43.135 RCW – No General Fund-State Revenue Impact

Chapter 308, Laws of 2003 (HB 1126), authorizes the Department of Agriculture to increase fees imposed under the seed laws with respect to laboratory testing and seed certification in excess of the state fiscal growth factor under specified conditions. The state's seed laws provide uniformity and consistency in the packaging of agricultural and other seed. This legislation does not impact the state general fund but increases fee-related revenues to the Agricultural Local Account by \$938,000.

Addressing Violations Connected with the Offer, Sale, or Purchase of Securities – \$44,000 General Fund-State Revenue Decrease

Chapter 288, Laws of 2003 (SHB 1219), creates a new account and requires the Department of Financial Institutions to administer the account for the purpose of assisting law enforcement authorities in the prosecution of violations of the Securities Act. The account is funded by redirecting fines and funds from restitution and disgorgement orders. The legislation increases criminal penalties and expands the statute of limitations for violations of the Securities Act. Fines that may be administratively imposed by the Department of Financial Institutions are also increased. This legislation decreases state general fund revenues by \$44,000, decreases Financial Services Regulation Account revenues by \$7,000, and increases revenues to the new account, the Securities Prosecution Account, by \$200,000.

Providing Tax Incentives for Biodiesel and Alcohol Fuel Production – No General Fund-State Revenue Impact

Chapter 261, Laws of 2003 (2SHB 1240), establishes several tax preferences for the manufacture of alcohol and biodiesel fuels and for the manufacture of feedstock used for biodiesel fuels through June 30, 2009. A sales and use tax exemption is provided for the construction of manufacturing facilities. Property and leasehold excise tax exemptions are provided on real and personal property used for the purposes of manufacturing. A preferential business and occupation (B&O) tax rate of 0.138 percent is provided to eligible manufacturers. Because no fuel production activity is expected to commence for several years, this legislation has no revenue impact during the 2003-05 biennium.

Providing Tax Incentives for the Distribution and Retail Sale of Biodiesel and Alcohol Fuels – \$50,000 General Fund-State Revenue Decrease

Chapter 63, Laws of 2003 (2SHB 1241), establishes a B&O tax deduction for income derived from the sale of biodiesel or alcohol fuel through June 30, 2009. In addition, an exemption from retail sales and use taxes is provided for machinery and equipment used directly in the sale or distribution of biodiesel and alcohol fuels as well as any associated installation labor costs. This legislation reduces state general fund revenues by \$50,000 and local revenues by \$9,000.

Listing Property for Tax Purposes – No General Fund-State Revenue Impact

Chapter 302, Laws of 2003 (SHB 1278), eliminates the requirement that personal property affidavits must be signed and verified under penalty of perjury for property tax purposes. Instead, personal property lists and affidavits may be transmitted electronically. This legislation has no revenue impact.

Licensing and Regulating Money Transmission and Currency Exchange - No General Fund-State Revenue Impact

Chapter 287, Laws of 2003 (SHB 1455), provides requirements for the licensing and regulation of persons involved in the business of money transmission or currency exchange. Broad authority is granted to the Department of Financial Institutions to regulate money transmitters and currency exchangers, including the power to establish various fees to cover the costs of administering the program. The legislation creates bonding, net worth, and solvency requirements for licensees and certain defined practices are prohibited. Protections are provided for customers of licensees. Criminal penalties are created for certain violations of the act. This legislation does not impact the state general fund but increases fee-related revenue to the Financial Services Regulation Account by \$884,000.

Prohibiting Local Governments from Imposing B&O Tax on Intellectual Property - No General Fund-State Revenue Impact

Chapter 69, Laws of 2003 (ESHB 1462), prohibits cities from imposing B&O taxes on the process of creating intellectual property, such as the research in support of software development. This legislation has no state general fund impact but reduces revenues to the city of Seattle by over \$3 million.

Modifying Excise Tax Interest Provisions - \$614,000 General Fund-State Revenue Increase

Chapter 73, Laws of 2003 (HB 1591), changes the annual period for calculating the interest rate used by the Department of Revenue for assessments and refunds to a period that ends in July rather than October. The starting point for interest payments on overpayments of excise taxes is delayed. The act also removes an exception to the four-year time period for requesting tax refunds that applies to federal contractors. This legislation increases state general fund revenues by \$614,000.

Limiting the Taxability of Certain Internet Transactions - \$20,000 General Fund-State Revenue Decrease

Chapter 76, Laws of 2003 (SHB 1722), exempts remote sellers from B&O taxes and sales and use tax collection requirements for transactions via Internet servers owned by unaffiliated businesses. This legislation decreases state general fund revenues by \$20,000 and local revenues by \$6,000.

Concerning the Cost of a Catch Record Card - No General Fund-State Revenue Impact

Chapter 318, Laws of 2003 (2SHB 1725), requires a \$10 fee for an additional or duplicate catch record card and deposits proceeds from the sale of catch record cards in the Wildlife Account. The Department of Fish and Wildlife is required to include provisions for recording marked and unmarked salmon on catch record cards issued after March 31, 2004. Catch record cards issued with a temporary charter stamp are exempt from the new fee and are valid for two consecutive days. This legislation does not impact the state general fund but increases fee-related revenues to the Wildlife Account by \$307,000.

Expanding Employment Opportunities for People with Disabilities - No General Fund-State Revenue Impact

Chapter 136, Laws of 2003 (SHB 1813), requires agencies to consider vendors in good standing as part of the bidding process for goods and services. A vendor in good standing is defined as a business owned and operated by a person with a disability or as a community rehabilitation program that has achieved or made progress in enhancing employment opportunities for disadvantaged persons and persons with disabilities. A potential vendor must submit an application with a non-refundable fee of no more than \$500 to the Department of General Administration; the fee is deposited to a new account to cover costs in overseeing the program. This legislation does not impact the state general fund but increases revenue to the new account, the Vendor in Good Standing Account, by \$62,000.

Improving Passenger Ferry Service - No General Fund-State Revenue Impact

Chapter 83, Laws of 2003 (ESHB 1853), authorizes public transportation benefit areas bordering Puget Sound to operate passenger-only ferries. The legislation grants the authority to impose a 0.4 percent sales and use tax and a 0.4 percent motor vehicle excise tax, both subject to voter approval, to fund passenger-only services. King County is authorized to form a county ferry district and impose regular property taxes of up to \$0.75 per thousand dollars of assessed valuation within the district. New public providers are authorized to use the state ferry system facilities. The Utilities and Transportation Commission must consider the potential effect on public agencies operating passenger-only ferry service when granting new private passenger-only ferry operating rights. This legislation does not impact the state general fund but provides authority for increased local revenues.

Regarding Taxation of Persons Providing Chemical Dependency Services - \$64,000 General Fund-State Revenue Decrease

Chapter 343, Laws of 2003 (HB 1858), reduces the B&O tax rate from 1.5 percent to 0.484 percent on certain income received by persons who provide certified intensive inpatient or recovery house residential treatment services for chemical dependency. This legislation decreases state general fund revenues by \$64,000.

Creating the Commercial Fisheries Permit Buyback Account - No General Fund-State Revenue Impact

Chapter 174, Laws of 2003 (2SHB 1887), authorizes the Fish and Wildlife Commission to establish a fee on three fisheries and directs that all new revenue be used for reimbursing the federal government for a fleet reduction permit buyback program. A new account, the Commercial Fisheries Permit Buyback Account, is created for the deposit of the fees. The requirement that the Department of Fish and Wildlife maintain a maximum of 175 coastal crab licenses is removed. This legislation does not impact the state general fund but increases fee-related revenue to the Commercial Fisheries Buyback Account by \$3.2 million.

Providing a Limited Property Tax Exemption for the Use of Facilities by Artistic, Scientific, and Historical Organizations - No General Fund-State Revenue Impact

Chapter 121, Laws of 2003 (HB 1905), allows nonprofit museums and performing arts associations to retain their property tax exemption when they rent their exempt property to others under limited conditions. This legislation does not impact the state general fund but reduces local revenues by a small but indeterminate amount.

Enacting Procedural Enhancements to the Master Settlement Agreement - No General Fund-State Revenue Impact

Chapter 25, Laws of 2003 (SHB 1930), provides enforcement provisions for requirements adopted under the Tobacco Master Settlement Agreement. Tobacco manufacturers are required to certify to the Attorney General that they comply with the requirements for sale of cigarette brands in this state. The Attorney General is required to maintain a directory of cigarette brands that may be sold in this state. The legislation provides penalties for possession or sale of cigarettes not on the directory maintained by the Attorney General. Cigarette wholesalers are required to report cigarette sales and other supporting data. This legislation does not impact the state general fund but increases revenues to the Tobacco Settlement Account by \$1.5 million.

Modifying Cigarette Regulatory Provisions - \$8,000 General Fund-State Revenue Increase

Chapter 114, Laws of 2003 (SHB 1943), provides that only wholesalers can affix cigarette tax stamps. Criminal penalties for selling cigarettes without a license are increased. Criminal penalties are provided for manufacturing, selling, or possessing for sale, counterfeit cigarettes. This legislation increases state general fund revenue by \$8,000.

Clarifying Use Tax Provisions - \$60 Million General Fund-State Revenue Decrease

Chapter 5, Laws of 2003 (EHB 1977), exempts repair and other services from use tax when performed on property for which a sales tax exemption already exists for these services. This legislation corrects an error in Chapter 367, Laws of 2002, which made these previously exempt services taxable under the use tax. This legislation reduces state general fund revenues by \$60 million and local revenues by \$18 million.

Providing Property Tax Exemptions for Nonprofit Organizations Supporting Artists - No General Fund-State Revenue Impact

Chapter 344, Laws of 2003 (HB 2001), exempts from property tax the property of nonprofit organizations that solicit gifts, donations, and grants for individual artists. This legislation does not impact the state general fund but reduces local revenues by \$2,000.

Regulating the Sale of Cigarettes - \$99,000 General Fund-State Revenue Increase

Chapter 113, Laws of 2003 (SHB 2027), establishes requirements for the delivery of cigarettes ordered by telephone, mail, or the Internet. Criminal penalties are provided for certain cigarette shipping-related activities. Shipping cigarettes without first obtaining proof of age is a class C felony; a second or subsequent offense is a class B felony; and any delivery service that delivers cigarettes without verifying the age and identity of the recipient is guilty of a gross misdemeanor. The criminal profiteering act is applied to unlawful sales and delivery of cigarettes. This legislation is expected to increase compliance with state cigarette tax laws and increases state general fund revenues by \$99,000 and revenues to other state funds by \$227,000.

Changing Requirements Regarding State and Local Tax to Provide for Municipal B&O Tax Uniformity and Fairness - No General Fund-State Revenue Impact

Chapter 79, Laws of 2003 (EHB 2030), requires cities, working through the Association of Washington Cities, to adopt a model ordinance on municipal B&O taxes to address issues of uniformity and multiple taxation between municipal codes. After December 30, 2004, any city that imposes B&O taxes must first comply with all requirements of the bill or lose the authority to impose the tax. By the start of calendar year 2008, cities that impose B&O taxes must allow businesses to apportion income from non-service activities based on location and from service activities based on a formula with payroll and service income factors. This legislation does not impact state revenues but reduces local revenues by \$1.2 million.

Modifying Tobacco Escrow Refund Provisions - No General Fund-State Revenue Impact

Chapter 342, Laws of 2003 (SHB 2038), modifies escrow provisions under the Tobacco Master Settlement Agreement to prevent excessive refunds to non-participating manufacturers. This legislation does not impact the state general fund but is expected to increase revenues to the Tobacco Settlement Account by \$2 million.

Establishing Liability for Taxes on Unlawful or Delinquent Insurers or Taxpayer - \$40,000 General Fund-State Revenue Increase

Chapter 341, Laws of 2003 (SHB 2040), authorizes the Insurance Commissioner to impose penalties on health maintenance organizations and health care services contractors who fail to pay premium taxes on time. The assessment of penalties is allowed for failure to make timely prepayments on premium taxes. The Insurance Commissioner is authorized to charge interest on unpaid premium taxes and prepayments. Entities or individuals who are unlawfully engaged in the insurance business are subject to the same tax and penalty provisions as are authorized insurers. Premium taxes are limited by making them applicable to only that portion of the premium related to risks or exposures in this state, or to the enrolled participants residing in this state. This legislation increases state general fund revenues by \$40,000.

Facilitating License Plate Technology Advances - No General Fund-State Revenue Impact

Chapter 370, Laws of 2003, Partial Veto (HB 2065), requires the Department of Licensing to implement a flat, digitally-printed license plate system and establishes fees to support license plate technologies. This legislation does not impact the state general fund but increases fee-related revenues to the new License Plate Technology Account by \$2.2 million.

Revising Provisions Relating to Storm Water Rates and Charges - No General Fund-State Revenue Impact

Chapter 394, Laws of 2003 (ESHB 2088), requires local governments operating storm water sewer facilities to reduce rates and charges by a minimum of 10 percent for any new or remodeled commercial building that utilizes a permissive rainwater harvesting system meeting certain requirements. Counties are prohibited from imposing storm water sewer system rates and charges on property classified as either forestland or as timberland. This legislation does not impact the state general fund but reduces local revenues.

Providing Tax Incentives For Wood Biomass Fuel Production, Distribution, and Sale - No General Fund-State Revenue Impact

Chapter 339, Laws of 2003 (EHB 2146), establishes tax incentives for the production, retail sale, and distribution of wood biomass fuels through 2009. A sales and use tax exemption is provided for the construction of manufacturing facilities. Property and leasehold excise tax exemptions are provided on real and personal property used for the purposes of manufacturing. A preferential B&O tax rate of 0.138 percent is provided to eligible manufacturers. A B&O tax deduction is provided for income derived from the sale of wood biomass fuel. An exemption from sales and use taxes is provided for machinery and equipment used directly in the sale or distribution of wood biomass fuel as well as any associated installation labor costs. This legislation does not impact state revenues in the 2003-05 biennium, as no production of wood biomass fuel is expected for several years.

Taxing Parimutuel Machines – No General Fund-State Revenue Impact

Chapter 27, Laws of 2003, 1st sp.s. (SHB 2192), increases the parimutuel tax rate from 0.52 percent to 1.803 percent on the race meet gross receipts of small licensees, effective January 1, 2004. This legislation does not impact the state general fund but increases revenues to the Horse Racing Commission Account by \$181,000.

Extending Commute Trip Reduction (CTR) Incentives - No General Fund-State Revenue Impact

Chapter 364, Laws of 2003 (ESHB 2228), allows a credit against the B&O and public utility taxes to businesses providing ride sharing incentives for employees in CTR programs. A \$750,000 annual grant program is established for public and private employers, developers, and property managers for the purpose of trip reduction; awards are to be based on the expected cost-effectiveness of trip-reduction project proposals. The credit and grant program is terminated in 2013. Although the tax credits reduce state general fund revenues, the reductions are offset by transfers from the Multimodal Transportation Account. This legislation reduces revenues to the Multimodal Transportation Account by \$6 million.

Authorizing Transportation Financing Alternatives - No General Fund-State Revenue Impact

Chapter 361, Laws of 2003, Partial Veto (ESHB 2231), authorizes several transportation financing measures, including a 5 cent per gallon fuel tax increase; a 15 percent increase in gross weight fees for trucks over 10,000 pounds; an additional 0.3 percent sales tax on motor vehicles; and an option to retain a license plate number at time of replacement for \$20. The additional gas tax and additional gross weight fees are deposited to the new Transportation 2003 Account, while the sales tax on motor vehicles and the license plate retention fees are deposited into the Multimodal Transportation Account. The gas tax expires when the bonds sold to pay for the projects on the 2003 transportation project list are paid off. The rates at which refund distributions are calculated for off-road vehicles, snowmobiles, and marine usage are increased by one cent in each of the next five biennia. This legislation does not impact the state general fund but increases revenues to various transportation accounts by \$411.7 million. (The Governor vetoed a contingency section that would have voided the part of the legislation concerning license plate fees, if House Bill 2065 [Chapter 370, Laws of 2003, Partial Veto] was enacted.)

Relating to Increasing Revenue - \$100.6 Million General-Fund State Increase

Chapter 13, Laws of 2003, 1st sp.s. (EHB 2269), includes a number of provisions that increase state general fund revenues. The legislation requires payment of most excise taxes by the 20th of the month instead of the 25th. Penalties are increased for the underpayment of state excise taxes. Promoters of special events such as auto shows, garden shows, and flea markets are required to verify that vendors at the event are registered with the Department of Revenue. The definition of "successor" is modified for purposes of liability for unpaid excise taxes after a business or its assets are sold. The holding period for certain types of unclaimed property under the Uniform Unclaimed Property Act is reduced from five years to three years. This legislation increases state general fund revenues by \$100.6 million.

Providing Tax Incentives for the Retention and Expansion of the Aerospace Industry in Washington State - \$25.3 Million General-Fund State

Chapter 1, Laws of 2003, 2nd sp.s. (HB 2294), provides a number of tax preferences to the Washington aerospace industry. B&O tax rates are reduced for manufacturers of commercial airplanes or commercial airplane components. Manufacturers of commercial airplanes or commercial airplane components may take credits against B&O tax liability for pre-production development expenditures. Credits may also be taken against B&O tax liability for purchases of computer software and hardware that was acquired between July 1, 1995, and the effective date of the legislation and that has been used primarily for the digital design and development of commercial airplanes. The legislation provides sales and use tax exemptions for computer hardware, computer peripherals, and software acquired after the effective date of this bill, as well as for the associated installation labor and services costs if the equipment is used primarily in the development, design, and engineering of commercial airplanes or commercial airplane components. Sales and use tax exemptions are provided for the purchase of labor and services rendered in the construction of new buildings, and for the purchase or acquisition of components and fixtures of these buildings by a manufacturer of superefficient airplanes or by a port district for lease to a manufacturer of superefficient airplanes. A leasehold excise tax exemption is provided for these new buildings when constructed by a port district and leased to a manufacturer of superefficient airplanes. A property tax exemption is provided for buildings, machinery, and equipment on port district property when used exclusively for manufacturing superefficient airplanes. Credits may be taken against B&O tax liability for property taxes paid on new buildings and the land under new buildings when used exclusively for manufacturing commercial airplanes or components of commercial airplanes. The B&O rate reductions expire July 1, 2024, or, if the assembly of a superefficient airplane does not begin by the end of calendar 2007, on December 31, 2007. All other tax incentives expire on July 1, 2024. Annual reports on employment, wages, and employee benefits are required from all businesses that benefit from a tax incentive under this bill. The effective date of the bill is made contingent on the signing of a memorandum of agreement regarding an affirmative final decision to site a significant commercial airplane final assembly plant in Washington. This legislation reduces state general fund revenues by \$25.3 million and local revenues by \$1.4 million in the 2003-05 biennium.

Requesting Congress to Restore the Federal Income Tax Deduction for State and Local Sales Taxes - No General Fund-State Revenue Impact

Substitute House Joint Memorial 4004 requests Congress to restore the itemized deduction for sales taxes available to Washington State residents before 1986. This legislation has no revenue impact.

Removing the Sale of Strong Beer from the Exclusive Jurisdiction of the Liquor Control Board - No General Fund-State Revenue Impact

Chapter 167, Laws of 2003 (SSB 5051), allows the sale of strong beer under the same provisions as regular beer. Previously, strong beer was subject to the same taxes as hard alcohol. This legislation has no revenue impact.

Revising Business and Occupation Taxation for Certain Aviation Businesses – \$1.3 Million General Fund-State Revenue Decrease

Chapter 2, Laws of 2003, 1st sp.s. (ESSB 5071), reduces the B&O tax rate from 0.484 percent to 0.275 percent on the sale and repair of equipment used in interstate or foreign commerce by certain Federal Aviation Administration certificated aircraft repair facilities. Businesses using the special tax rate are required to report information on jobs and wages. The lower rate is terminated on July 1, 2006. This legislation reduces state general fund revenues by \$1.3 million.

Strengthening Laws of Against Fuel Tax Evasion - No General Fund-State Revenue Impact

Chapter 358, Laws of 2003 (SSB 5190), allows the Washington State Patrol to seize from any unlicensed importer or manufacturer any fuel imported into the state or manufactured in the state, as well as the conveyances in which the fuel is shipped. The penalty is reduced for a single event of using dyed diesel for a taxable purpose from a felony to a gross misdemeanor. Multiple dyed diesel infractions remain a felony. This legislation does not impact the state general fund but increases Motor Vehicle Account revenues by \$87,000.

Authorizing An Alternative Local Option Fuel Tax - No General Fund-State Revenue Impact

Chapter 350, Laws of 2003 (ESSB 5247), authorizes a regional transportation investment district to impose the local option fuel tax of 10 percent of the state fuel tax rate, subject to voter approval. This legislation does not impact the state general fund but provides authority to increase local government revenues. Of any new local revenue, 1 percent is deposited in the new Local Administration Account to fund Department of Revenue administrative expenses.

Establishing a Quality Maintenance Fee on Nursing Facilities - \$78.2 million General Fund-State Revenue Increase

Chapter 16, Laws of 2003, 1st sp.s. (E2SSB 5341), imposes a quality maintenance fee of \$6.50 per patient day on most nursing homes and directs the Department of Social and Health Services to submit a waiver, exempting certain nursing facilities from the fee, to the federal government. This legislation increases state general fund revenues by \$78.2 million.

Providing an Ongoing Funding Source for the Community Economic Revitalization Board's Financial Assistance Programs - No General Fund-State Revenue Impact

Chapter 150, Laws of 2003 (SB 5363), directs that all earnings from the Public Works Trust Fund be transferred to the Community Economic Revitalization Board's financial assistance programs beginning July 2005. Because this legislation has no effect until fiscal year 2006, there is no impact to the state general fund in the 2003-05 biennium.

Providing Incentives to Reduce Air Pollution through the Use of Neighborhood Electric Vehicles - No General Fund-State Revenue Impact

Chapter 353, Laws of 2003 (ESB 5450), includes certain electric vehicles that have a top speed of 20-25 miles per hour (mph) in the definition of motor vehicles and prohibits the operation of these vehicles on state highways and roads with a speed limit of over 35 mph. Insurance, drivers license, and seat belts are required. This legislation does not impact the state general fund but increases licensing revenues to various transportation accounts by a total of \$67,000.

Regulating Disposition of Returned License Plates - No General Fund-State Revenue Impact

Chapter 359, Laws of 2003 (SSB 5600), authorizes the Department of Licensing (DOL) to provide used or returned license plates to individuals requesting them for non-vehicular uses. DOL is authorized to charge up to \$5 to cover the associated postage and handling costs. This legislation does not impact the state general fund but increases Motor Vehicle Account revenues by \$5,000.

Authorizing Additional Funding for Local Governments – No General Fund-State Revenue Impact

Chapter 24, Laws of 2003, 1st sp.s, Partial Veto (2ESSB 5659), provides county and city governments with additional and more flexible funding sources. Counties are provided with additional general retail sales and use tax authority, subject to voter approval, of up to 0.3 percent. Forty percent of any revenue received under the new retail sales and use tax must be distributed to cities within the county on a per capita basis. Counties and cities may seek voter approval to increase property tax collections at a rate that exceeds 1 percent for up to six consecutive years. Certain small counties are permitted to opt out of the requirement to plan under the Growth Management Act. Clallam and Jefferson Counties are provided with an additional year by which to complete a review and evaluation of plans and regulations under the Growth Management Act. (The Governor vetoed the provisions pertaining to the Growth Management Act.) This legislation does not impact the state general fund but provides increased revenue authority to local governments.

Providing Tax Incentives to Support the State's Semiconductor Cluster - No General Fund-State Revenue Impact

Chapter 149, Laws of 2003 (SB 5725), creates a number of tax preferences for manufacturing semiconductor materials if a contract is signed for an investment of at least \$1 billion in a semiconductor microchip manufacturing facility in Washington. The B&O tax rate for manufacturing semiconductor materials is reduced from 0.484 percent to 0.275 percent, although manufacturers of semiconductor microchips are specifically provided a 100 percent B&O tax credit for the first nine years after the bill takes effect. An exemption is provided for the purchase or use of gases and chemicals used in semiconductor manufacturing from retail sales and use tax. Three additional preferences are provided if employment is maintained at a level that is at least 75 percent of the full employment level for 8 continuous years: an exemption from retail sales and use tax for the construction of new semiconductor manufacturing buildings; credit against B&O tax liability of \$3,000 for each employment position in semiconductor manufacturing production; and an exemption from property taxes for machinery and equipment used in manufacturing semiconductor materials. The tax preferences are terminated 12 years after they start. The legislation provides for accountability reporting and a review of the rates, credits, and exemptions. This legislation is effective upon the signing of a contract to construct a significant manufacturing facility and is not expected to impact the state general fund in the 2003-05 biennium.

Reporting Abandoned Property - No General Fund-State Revenue Increase

Chapter 237, Laws of 2003 (SSB 5737), increases the value threshold from \$25 to \$50 at which a business must provide to the Department of Revenue (DOR) names and addresses of unclaimed property owners and attempt to notify apparent owners. The number of times that DOR must publish in a newspaper the list of people owning unclaimed property is reduced from two to one. This legislation has no revenue impact.

Implementing the Streamlined Sales and Use Tax Agreement - \$4.2 Million General Fund-State Revenue Increase

Chapter 168, Laws of 2003 (SB 5783), enacts an extensive set of changes recommended in the Streamlined Sales and Use Tax Agreement developed by a number of states to simplify and improve state and local sales taxes. Changes are made in the sales and use tax treatment of delivery charges, eyeglass frames, prosthetic items, fruit and vegetable juices, and bottled water that will have at least moderate effects on amounts of taxes due. Other changes are made that affect the definitions and administrative provisions for sales and use taxes, but do not substantially affect amounts of taxes due. The Streamlined Sales and Use Tax Agreement provisions that would change which local government receives sales tax revenue for goods shipped to a customer address are not implemented; instead, the legislation provides for a study of this issue. This legislation increases state general fund revenues by \$4.2 million and local government revenues by \$1.2 million.

Authorizing Cigarette Tax Contracts Between the State and Additional Indian Tribes - No General Fund-State Revenue Impact

Chapter 236, Laws of 2003 (SSB 5933), adds the Samish Indian Nation, the Quileute Tribe, and the Kalispel Tribe to the list of tribes with which the Governor may make cigarette tax contracts. This legislation has no revenue impact.

Increasing Certain Assessments and Penalties Imposed by Courts - No General Fund-State Revenue Impact

Chapter 380, Laws of 2003 (ESSB 6023), increases the additional penalty on traffic infractions from \$10 to \$20. The first penalty assessments on fines, forfeitures, and penalties by courts of limited jurisdiction are increased from 60 percent to 70 percent of the fine. This legislation does not impact the state general fund but increases Public Safety and Education Account revenues by \$16.7 million and local government revenues by \$4.3 million.

Authorizing Special Assessments to Fund Convention and Trade Promotion - No General Fund-State Revenue Impact

Chapter 148, Laws of 2003 (ESSB 6026), authorizes the establishment of tourism promotion areas in counties with populations of more than 40,000 but less than one million persons, and in cities and towns within such counties. Local governments that establish tourism promotion areas are provided the authority to impose a charge on lodging of up to \$2 per room per night within the areas to fund the promotion of conventions and tourism in the areas. This legislation does not impact state general fund revenues but increases local government funding authority.

Adjusting Fees, Taxes, and Penalties for Pilots and Aircraft - No General Fund-State Revenue Impact

Chapter 375, Laws of 2003 (SB 6056), adjusts fees, taxes, and penalties for pilots and aircraft. Pilot, airmen, and airwomen annual registration fees are increased from \$8 to \$15. The additional revenues are used to fund airport maintenance during the 2003-05 biennium. Annual aircraft registration fees are increased from \$8 to \$15. The aircraft fuel tax is modified to a volumetric basis and is set at a fixed rate of 10 cents per gallon. Aircraft owners are required to notify the Department of Transportation of a change in ownership of a registered aircraft within 30 days. Aircraft owners are required to show proof of registration before an airport may lease or sell tie-down or hangar space to the owner. Civil penalties are established for failure to register as a pilot or to register an aircraft. This legislation does not impact the state general fund but increases Aeronautics Account revenues by \$1.1 million.

Modifying the Distribution of State Property Taxes - \$188.3 Million General Fund-State Revenue Increase

Chapter 19, Laws of 2003, 1st sp.s. (ESSB 6058), changes the per full-time equivalent (FTE) student allocations from the Student Achievement Fund from \$450 in the 2004-05 school year to \$254 per FTE student in the 2004-05 school year; \$300 per FTE student in the 2005-06 school year; \$375 per FTE student in the 2006-07 school year; and \$450 per FTE student in the 2007-08 school year. The per student allocation is increased by inflation after the 2007-08 school year. This legislation reallocates \$188.3 million in revenues from the Student Achievement Account to the state general fund in the 2003-05 biennium.

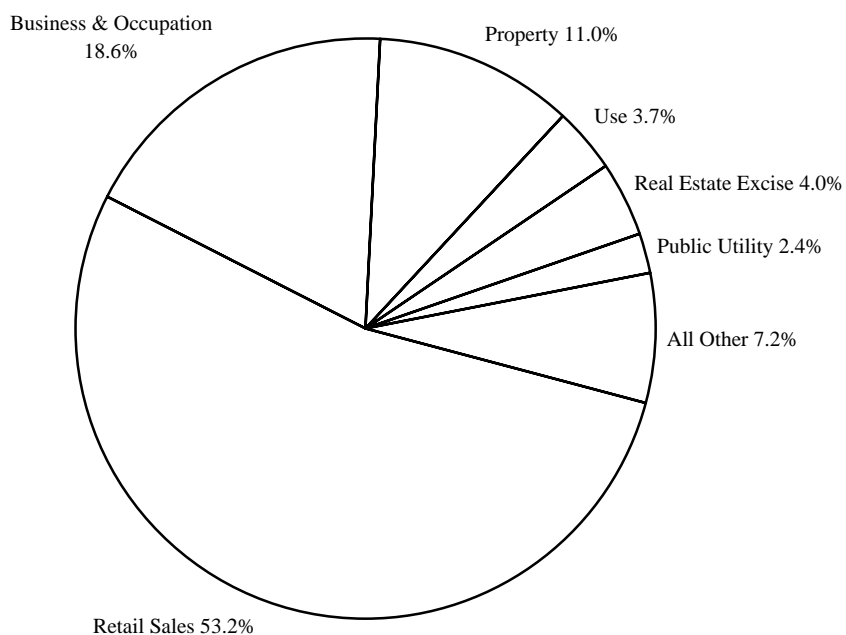
Requesting Congress to Restore the Sales Tax Deduction for Federal Income Taxes - No General Fund-State Revenue Impact

Senate Joint Memorial 8003 asks Congress to restore the federal income tax itemized deduction for sales taxes, which was available to citizens of Washington State prior to 1986. This legislation has no revenue impact.

Washington State Revenue Forecast - March 2003

2003-05 General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	11,944.7
Business & Occupation	4,170.8
Property *	2,478.2
Use	819.8
Real Estate Excise	892.0
Public Utility	529.9
All Other	1,616.1
Total	22,451.5

* The state levy forecast reflects only the General Fund portion. The portion of the state levy that is transferred to the Student Achievement Account by Initiative 728 is excluded.

Note: Reflects the March 2003 Revenue Forecast (Cash Basis).